
Dictionary of Finance and Investment Terms

Fifth Edition

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Library of Congress Catalog Card No. 98-38302

International Standard Book No. 0-7641-0790-9

Library of Congress Cataloging-in-Publication Data

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Some examples:

- (1) entering into two options at the same EXERCISE PRICE, but with different maturity dates. For instance, an investor could buy an XYZ April 60 call and sell an XYZ July 60 call.
- (2) entering into two options at different STRIKE PRICES with the same expiration month. For example, an investor could buy an XYZ April 60 call and sell an XYZ April 70 call.
- (3) entering into two options at different strike prices with different expiration months. For instance, an investor could buy an XYZ April 60 call and sell an XYZ July 70 call.

OPTION WRITER person or financial institution that sells put and call options. A writer of a PUT OPTION contracts to buy 100 shares of stock from the put option buyer by a certain date for a fixed price. For example, an option writer who sells XYZ April 50 put agrees to buy XYZ stock from the put buyer at \$50 a share any time until the contract expires in April.

A writer of a CALL OPTION, on the other hand, guarantees to sell the call option buyer the underlying stock at a particular price before a certain date. For instance, a writer of an XYZ April 50 call agrees to sell stock at \$50 a share to the call buyer any time before April.

In exchange for granting this right, the option writer receives a payment called an OPTION PREMIUM. For holders of large portfolios of the premiums from stocks, option writing therefore is a source of additional income.

ORAL CONTRACT contract between two parties that has been spoken, but not agreed to in writing or signed by both parties. Oral contracts are usually legally enforceable, though not in the case of real estate.

OR BETTER indication, abbreviated OB on the ORDER TICKET of a LIMIT ORDER to buy or sell securities, that the broker should transact the order at a price better than the specified LIMIT PRICE if a better price can be obtained.

ORDER

Investments: instruction to a broker or dealer to buy or sell securities or commodities. Securities orders fall into four basic categories: MARKET ORDER, LIMIT ORDER, time order, and STOP ORDER.

Law: direction from a court of jurisdiction, or a regulation.

Negotiable instruments: payee's request to the maker, as on a check stating, "Pay to the order of (when presented by) John Doe."

Trade: request to buy, sell, deliver, or receive goods or services which commits the issuer of the order to the terms specified.

ORDER IMBALANCE large number of buy or sell orders for a stock, causing an unusually wide spread between bid and offer prices. Stock exchanges frequently halt trading of a stock with a significant order imbalance until more buyers or sellers appear and an orderly market can be reestablished. A significant order imbalance on the buying side

can occur when there is an announcement of an impending takeover of the company, better-than-expected earnings, or other unexpected positive news. A significant order imbalance on the selling side can occur when a takeover offer has fallen through, a key executive has left the company, earnings came in far worse than expected, or there is other unexpected negative news.

ORDER ROOM department in a brokerage firm that receives all orders to buy or sell securities. ORDER TICKETS are processed through the order room.

ORDER SPLITTING practice prohibited by rules of the National Association of Securities Dealers (NASD) whereby brokers might split orders in order to qualify them as small orders for purposes of automatic execution by the SMALL ORDER EXECUTION SYSTEM (SOES).

ORDER TICKET form completed by a registered representative (ACCOUNT EXECUTIVE) of a brokerage firm, upon receiving order instructions from a customer. It shows whether the order is to buy or to sell, the number of units, the name of the security, the kind of order (ORDER MARKET, LIMIT ORDER or STOP ORDER) and the customer's name or code number. After execution of the order on the exchange floor or in the firm's trading department (if over the counter), the price is written and circled on the order ticket, and the completing broker is indicated by number. The order ticket must be retained for a certain period in compliance with federal law.

ORDINARY INCOME income from the normal activities of an individual or business, as distinguished from CAPITAL GAINS from the sale of assets. Prior to the TAX REFORM ACT OF 1986, the long-term CAPITAL GAINS TAX was lower than that on ordinary income. The 1986 Act eliminated the preferential capital gains rate, but it kept the separate statutory language to allow for future increases in ordinary income rates. In 1991, capital gains rates were limited to 28%, and in the TAXPAYER RELIEF ACT OF 1997, capital gains tax rates were cut to 20%.

ORDINARY INTEREST simple interest based on a 360-day year rather than on a 365-day year (the latter is called *exact interest*). The difference between the two bases when calculating daily interest on large sums of money can be substantial. The ratio of ordinary interest to exact interest is 1.0139.

ORGANIZATION CHART chart showing the interrelationships of positions within an organization in terms of authority and responsibility. There are basically three patterns of organization: *line organization*, in which a single manager has final authority over a group of foremen or middle management supervisors; *functional organization*, in which a general manager supervises a number of managers identified by function; and *line and staff organization*, which is a combination of line and functional organization, with specialists in particular functions holding staff positions where they advise line officers concerned with actual production.

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